



MINISTRY OF FINANCE

Europe 2020 -Strategy



Finland's National Programme,
Spring 2011

14c/2011

Economic outlook and economic policy



MINISTRY OF FINANCE

Europe 2020 - Strategy

Finland's National Programme, Spring 2011



441 002
Printed matter

MINISTRY OF FINANCE
PO Box 28 (Snellmaninkatu 1 A) FI-00023 GOVERNMENT
FINLAND
Tel. +358 9 16001
Internet: www.financeministry.fi
Layout: Anitta Heiskanen

Juvenes Print
Tampereen Yliopistopaino Oy, 2011

Fact sheet

Publisher and date	Ministry of Finance, April 2011	
Author(s)	Economics Department	
Title of publication	Europe 2020 Strategy – Finland’s Draft National Programme, Spring 2011	
Parts of publication/ other versions released	The publication’s language versions: Finnish: Eurooppa 2020 – strategia Suomen kansallinen ohjelma, kevät 2011 (14a/2011) Swedish: Europa 2020 –strategin, Finlands nationella program, våren 2011 (14b/2011)	
Publications series and number	Ministry of Finance publications 14c/2011	
Publication format and availability	The publication can be accessed in pdf-format at www.financeministry.fi . There are also instructions for ordering a printed version of the publication.	
ISBN 978- 952-251-169-3 (nid.) ISSN 1459-3394 (nid.) ISBN 978- 952-251-169-0 (pdf) ISSN 1797-9714 (pdf)	No. of pages 51	Language English
<p>Abstract</p> <p>The European Council adopted a new strategy for employment and economic policy in June 2010. The Europe 2020 Strategy’s vision is smart, sustainable and inclusive economic growth. The objectives covered in the Strategy include employment, research and development funding, climate issues, education matters and reducing poverty. The Member States also prepare national targets for the Europe 2020 Strategy.</p> <p>The national decision-making of the Member States is evaluated by means of the European Semester, which was launched in January 2011. The Member States report on their activities in April and in June the EU gives the Member States country-specific, concrete recommendations, which must also be taken into account when formulating national budgets.</p> <p>Finland’s national programme describes the medium-term outlook in Finland in concordance with the Stability Programme. Finland’s targets are to raise the employment rate to 78 per cent by 2020, maintain the ratio of R&D funding at a minimum of 4 per cent of GDP, reach the climate and energy targets agreed in the EU, raise the proportion of people with tertiary level education to 42 per cent, keep the proportion of early school leavers below 8 per cent and reduce the number of people living at risk of poverty and social exclusion. Finland’s national targets exceed those set at the EU level.</p> <p>The national programme also specifies the prerequisites for growth and employment and describes existing barriers. The aim is to safeguard long-term sustainability of public finances, reduce centralisation of the production structure, tap into labour potential to the full extent and boost competition.</p> <p>This national programme presents those Government decisions that make it possible to achieve the national targets and help remove barriers to growth.</p>		

Foreword

The European Council approved the Europe 2020 Strategy in June 2010. The EU was perceived to need a strategy to increase growth and employment, based on enhanced coordination of economic policy. The Strategy's vision is smart, sustainable and inclusive economic growth.

In September 2010, the Economic and Financial Affairs Council approved a European Semester to enhance coordination of economic policy. Each year in January the Commission will issue an annual growth survey, based on which the European Council will determine the key economic policy challenges in March. The European Council will thereafter give strategic guidance to Member States. In April, the Member States will report on their economic and employment policies to the EU in the form of a stability or convergence programme and a Europe 2020 programme. These programmes take into account the guidance given by the European Council. In June the Council will give Member States country-specific, concrete instructions which must also be taken into account when formulating national budgets. The European Semester commenced with the release of the growth survey by the Commission in January 2011. In March 2011 the European Council endorsed the agreement to strengthen economic policy coordination in the Euro area to improve competitiveness and achieve a higher degree of convergence. The measures specified in the agreement will be implemented into the national programmes.

In Finland, the policy outlines of the draft national programme published in autumn 2010 and the present programme are based on the result of Prime Minister Mari Kiviniemi's government negotiations, the programme of the previous government and its mid-term review, the Government's and labour market organisations' Programme for Sustainable Economic Growth and Employment, and other Government resolutions.

The development measures included in the programme will be implemented within the central government spending limits prevailing at the time in question.

The new Government that takes office after the general election in April will publish a more detailed programme once the autumn spending limits decision has been submitted to Parliament. The programme will take into account policies and decisions reached in the new Government Programme and any decisions following that. Whenever possible, the programme will include specific measures and their budgetary implications.

Contents

Foreword	7
1 Medium-term economic outlook in Finland	11
2 Prerequisites for and barriers to growth and employment	15
2.1 Safeguarding the long-term sustainability of public finances.....	15
2.2 Reducing centralisation of the production structure.....	17
2.3 Full utilisation of labour	20
2.4 Increasing competition.....	22
3 National targets and measures to achieve them	23
3.1 Raising the employment rate to 78%	23
3.2 Research and development expenditure at least 4%	25
3.3 Climate and energy targets under the EU effort-sharing agreement	26
3.4 Raising the proportion of people having completed tertiary education to 42% and reducing the proportion of early school leavers to 8%.....	28
3.5 Reducing the number of people living at risk of poverty and social exclusion	30

1 Medium-term economic outlook in Finland

The development of Finland's economy after the 1990s' recession was a success story. The long rise in total output ended abruptly, however, at the end of 2008. A small open economy like Finland's had simply no possibility in this situation to protect itself against a sudden, global demand shock. The international economic crisis had a very rapid and powerful impact on the Finnish economy.

In 2009 total output declined by 8%, i.e. by around double the average decline in the EU. Public finances turned from surplus to deficit, exports fell by a fifth, and private investment was more than 17% lower.

It was possible to exit the historically deep recession systematically. Concern for employment and economic activity was emphasised in the setting of fiscal policy. The Government responded quickly to the weakened economic situation with stimulus measures that maintained consumer confidence. An increase in unemployment was curbed and conditions for future growth created by strengthening employment and education policy. Due to the chosen economic policy line, unemployment has remained clearly lower than during the 1990s' recession.

In 2010 the Finnish economy resumed growth, fuelled by exports and domestic demand. The economy grew by 3.1% last year, and in 2011 growth is expected to accelerate to 3.6%.

As a result of the economic policy practised to alleviate the recession and its effects, the financial position of central government finances, and public finances as a whole, has deteriorated significantly. General government finances are therefore in a more vulnerable position from which to meet both expenditure pressures and a narrowing of the tax base arising from population ageing.

The impact and cost of fixed-term or one-off stimulus measures will be realised mainly in 2009–2011. During 2011, the first steps will be taken towards the balancing of public finances. Through agreed increases in indirect taxes, fiscal policy will change from expansionary to restrictive.

The emphasis in taxation has been shifted from that on labour towards that on consumption and the environment. The standard VAT rate was raised from 22% to 23% in July 2010 and lower tax rates were raised by one percentage point.

At the beginning of 2011 the tax bases on earned income were eased by EUR 446 million. Taxes on fuels for heating and power stations were raised so that central government revenue grew by EUR 730 million. Excise duties were introduced for sweets and icecream and taxes levied on soft drinks and refuse were raised. The Working Group for Developing the Finnish Tax System appointed by the government concluded in its report published in December 2010 that the focus should continue to gradually progress from the taxation of labour to the taxation of consumption. This would help foster labour supply, employment and productivity growth.

With growth in potential output slackening, economic growth is estimated to gradually decelerate to about 2% by 2015. Growth in potential output relies almost entirely on total output, as the labour input will contract and capital stock growth is anticipated to be marginal. Structural reforms in the economy, the ageing of the population and the relocation of production closer to the markets and to countries with lower production costs, the conditions for growth in potential output are being eroded. Economic growth is projected to average around 2.5% a year between 2011 - 2015.

The labour market situation will improve in the medium term and job numbers will increase. Nevertheless, the population ageing will tighten the labour market during the current decade; the working age population has already begun to contract in 2010 and will fall by 90,000 by 2015. As a consequence of this, growth in the number of the employed is projected to level off, even though participation rates will strengthen. Due to population ageing, the employment rate of 20–64 year-olds is projected to rise by 2015 to more than 76.1%, while the unemployment rate is expected to fall to less than 7%. Productivity growth is projected to slow to less than 2%, as the production structure will be more service-dominated than before. The rise in consumer prices is expected to be moderate.

Public finances will be strengthened by economic recovery, but in the absence of new measures to support growth and strengthen public finances will remain in deficit in 2015.

According to calculations made by the Ministry of Finance, age-related public expenditure will grow by a figure equivalent to 6 percentage points of GDP in the next few decades. Based on computations carried out in 2010, population ageing and a reduction of economic growth potential would require a structural surplus in public finances corresponding to 4% of GDP. At current overall tax rates, public debt as a proportion of GDP would thus not exceed the 60% limit even in the longer term.

Key indicators

	2008*	2009*	2010**	2011**	2012**	2013**	2014**	2015**
GDP, change in volume %	0.9	-8.2	3.1	3.6	2.7	2.4	2.1	1.9
Growth in potential output	2.7	1.5	1.8	1.8	1.7	1.5	1.3	1.2
Unemployment rate	6.4	8.3	8.4	7.6	7.2	6.9	6.5	6.3
Employment rate (20-64 year-olds)	75.5	73.3	72.8	74.5	75.0	75.8	75.9	76.2
Consumer Price Index, change %	4.1	0.0	1.2	3.3	2.7	2.2	2.0	2.0
Budgetary position in general government, % GDP	4.2	-2.6	-2.5	-0.9	-0.7	-0.9	-0.9	-0.9
Public debt, % GDP	34.1	43.8	48.4	50.1	51.3	53.0	54.6	56.2

2 Prerequisites for and barriers to growth and employment

Prerequisites for growth and employment are restoring stability and returning public finances to a sustainable path. More sustainable finances, high employment, more effective utilisation of knowledge and innovation, and social sustainability will be safeguarded through structural reforms. In this way, the vision of the Europe 2020 Strategy, i.e. smart, sustainable and inclusive economic growth, will be achieved. The sustainable growth objective includes the pursuit of a material- and energy-efficient and low-carbon economy.

In Finland, population ageing and weak productivity development of public services will jeopardise the long-term sustainability of public finances. Underutilisation of labour, centralisation of production structure and highly specialised exports make the economy vulnerable. Low competition in the domestic market and a centralised market structure, particularly in the service sector, increase price levels, which weaken consumer purchasing power and closed sector productivity.

There follows a more detailed examination of barriers to growth and employment, i.e. bottlenecks, in Finland.

2.1 Safeguarding the long-term sustainability of public finances

Principal means

- Raising the employment rate
- Reforming the municipal and service structure
- Raising public sector productivity
- Curbing public spending
- Tax reforms to increase tax revenue

In 2011 the public finances deficit will be cut substantially below the 3% of GDP limit set by the European Union. Public debt as a proportion of GDP will

be stabilised below the 60% level agreed in the European Union. The aim is to bridge the sustainability gap by the end of the decade. Binding decisions should be reached during the new government term on the measures to achieve this.

Public services and benefits can be safeguarded only if the employment rate increases, the efficiency of public service production improves and the population's health and functional capacity rise. At a higher than projected employment level, tax revenue will also grow and spending on unemployment security will fall. Reducing the sustainability gap will require an improvement in public sector productivity, for example by promoting electronic services and automating background processes. The objective is for key services to be available electronically by 2013.

Improving productivity is the principal means by which local government expenditure pressures will be curbed. In addition, the municipal and service structure will be reformed to make it cost-efficient and effective. The Kaste programme (2008–2011), which is an integral part of the service structure reform, specified general development objectives and measures in social welfare and health care: boosting participation and reducing social exclusion, increasing wellbeing and health, improving the quality, effectiveness and availability of services, and narrowing regional differences.

In accordance with the Programme for Sustainable Economic Growth and Employment, a wide-ranging evaluation and research project will be launched to develop methods for measuring effectiveness and productivity in public activities. Public administration information systems will be made interoperable as quickly as possible. Corporate steering of public sector IT will be centralised and strengthened. The focus and content of steering will be prepared in broad cooperation with the municipalities and other actors.

In January 2011 the Government introduced a joint spending inventory for all ministries. It examines whether the objectives for public expenditure can be achieved at lower cost and thus make more effective use of resources. The work is due to be completed by the time the spring 2011 government negotiations commence.

The Government and labour market organisations together have explored ways to ensure a sufficient level of employment pension benefits, the financial sustainability of the earnings-related pension scheme and how to raise the average retirement age. Drawing on the report published in March 2011 and based on earlier studies, the social partners will evaluate the conclusions to be drawn to develop pension and social policies. The organisations will examine whether common understanding can be reached on a long-term solution for lengthening careers. Assessments on possible follow-up work and the shape it could take will be made in the context of the government programme negotiations.

2.2 Reducing centralisation of the production structure

Principal means

- Improving conditions for business activity
- Improving the effectiveness of research, development and innovation policy
- Directing education and research to meet the needs of businesses and structural reforms
- Increasing the occupational and regional mobility of labour
- Lightening the administrative burden on businesses

The Government's objective is for Finland to be home to profitable businesses which employ Finns and pay taxes in Finland. Concerted effort has been made to combat the shadow economy, for instance by setting up at the beginning of 2011 a permanent unit under the Finnish tax administration to combat the shadow economy. In March 2011 the Government made a government resolution to improve access to public data material. The purpose is to create an open information infrastructure available to the whole of society. The measures adopted in the government resolution will ensure the availability re-use of data material in uniform, clear and equitable terms for everyone. The material should generally be free of charge.

The diversification of the production structure has been supported through strategic centres for science, technology and innovation established in different parts of the country as well as centres of expertise founded on cluster-based networking. The appeal of small innovation centres has remained weak, however. According to the National Innovation Strategy, innovation activity will be extended to businesses and public services towards non-technological development, and demand- and user-oriented perspectives will also be introduced. An action programme prepared for 2010–2013 will improve the effectiveness of innovation policy by increasing the number of actors and by utilising innovations also in solving challenges in society. The goal is to create diverse, high-level innovation environments.

The establishment of new businesses will be supported through business services and a new business-idea development service. The Vigo Start-up Accelerator Programme, for instance, was initiated in 2009. The aim, through public support, is to attract internationally experienced business developers to drive enterprises towards rapid growth and better investability. A more general goal is to enhance and internationalise the operation of the risk capital market. To date, six accelerator enterprises have been established and around 20 companies have been involved in driving them forward. A development project set up in the wellbeing sector aims to improve conditions for entrepreneurship, boost productivity and safeguard a supply of competent labour in the wellbeing sector.

Appropriations to promote the internationalisation of companies have been substantially increased and services related to internationalisation have been enhanced. The objective is to develop the international FinNode network of the main Finnish organisations promoting innovation. The network has been established in China, the USA, Russia and Japan. In 2011 operations will be expanded into India.

Abundant renewable natural resources, their sustainable use, and modern technology employed in utilising natural resources provide one platform for future economic growth and a more diverse production structure. A strategic programme in the forest industry aims to expand international business in the wood products sector and to increase added value in cooperation with sector enterprises and advocacy organisations. A bioeconomy working group, which submitted its report in October 2010, has proposed raising Finland by 2050 to become a pioneering country in bioeconomy, where welfare is based on the sustainable and diverse utilisation of renewable resources, high added value and creative expertise. Based on the working group's proposals, the intention is to prepare a Bioeconomy Strategy. The promotion of the bioeconomy and a Mineral Strategy prepared in autumn 2010 are part of a national natural resources review submitted to Parliament in December 2010.

Innovations improving energy- and material-efficiency and mitigating climate change will create conditions for a diversification of the production structure. Besides product and process innovations, the promotion of sustainable consumption, for example in housing, food and transport, offers significant potential for innovative products and services.

Green economy brings growth

Compared with other industrialised countries, Finland's economy draws exceptionally powerfully on value added from natural resources. Forest resources are ample and stocks in rock, minerals and peat are significant. Other major natural resources include clean water, arable land and undeveloped land and many natural products. The cultural and recreational value of ecosystem services can be utilised in tourism and wellbeing services. In ever tougher global competition, these national resources offer Finland great opportunities. In a smart and responsible natural resources economy it is possible to create wellbeing and wealth sustainably by taken into account the availability and sustainable use of the natural resources.

The target in Finland is to make a transition into a society that fares well and produces low emissions, so that emissions are slashed by at least 80% from the 1990 level by 2050, as part of an international effort. This calls for a significant improvement in energy efficiency in all sectors of society and a virtually emission-free energy, energy economy and transport. By developing, commercialising and adopting low-emission and resource-efficient technology it is possible to create new opportunities in productivity, growth and employment. These solutions could become one of the cornerstones of Finland's green economy.

Production structure diversification will also be promoted by broad-based investment in expertise and research quality. The aim is to create research environments that have sufficient critical mass and good operating potential. One example of resource centralisation and cooperation is the Finland Distinguished Professor (FiDiPro) programme, a joint funding programme of Aalto University, the Academy of Finland and TEKES for top science and technology researchers. Research quality and regional innovation activity will be strengthened by intensifying the higher education network.

The administrative burden on businesses has been lightened through a Government action programme covering 2009–2012. The measures have focused on the most onerous areas in terms of business activity, such as operating as an employer, taxation, financial reporting, environmental permits, food safety and quality, public procurement, statistics and agricultural aid. The development of public electronic services will be a key means of lightening the administrative burden.

Utilisation of information and communication technologies as well as implementation of projects optimised at the transport system level will increase productivity significantly and also reduce the administrative burden on businesses. The development of customer-oriented services and content as well as broadband functionality are of prime importance. Since July 2010 all 1-mega Internet connections are defined by law as a universal service. The purpose of the National broadband strategy is to make sure that by 2015 broadband connections of 100 megas are available to nearly all permanent residences and to business premises and government offices. This means Finland's position would be among the international leaders in the use and availability of very fast telecommunications connections. The aim is to exploit this achievement to the fullest by ensuring that new services are created in Finland that make use of the opportunities offered by these fast connections.

The Government's objective is to safeguard the operation of the transport system and to raise the productivity and effectiveness of the services it offers. Intelligent transport, namely use of information and communication technology in the transport system, will improve transport monitoring, management and control and provide information to drivers, travellers and transport system operators.

Culture, sports and exercise, and other leisure services have a significant role in Finland. The added value of the cultural sector in 2008 was around 3% of GDP and consumption of culture accounted for nearly 7% of private consumption. Participation in cultural events and in cultural hobbies has increased over the past decade in all population groups. By 2020, as population age structure and educational level change, consumption of culture is expected to grow further.

Conditions for cultural entrepreneurship will be improved and employment in the sector strengthened by the measures of the Development Programme for Business Growth and Internationalisation of Creative Sectors 2007–2013 and of

the Creative Economy Strategy. Expertise services for creative sector entrepreneurs will be improved, the creation of new business models and forms of funding will be encouraged, and networked development of businesses over sector boundaries will be promoted. Opportunities in the sector will also be taken into account in innovation, entrepreneurship and employment policy by strengthening collaboration between the ministries. Cultural exports will be developed and forms of support for culture made more flexible and incentivising. Entrepreneurship in the sports and exercise sector is growing too as a result of a rise in the standard of living and greater attention to lifestyle and health. This will be reinforced through a development strategy extending to 2020.

2.3 Full utilisation of labour

Principal means

- Raising the employment rate
- Directing education to meet demand for labour
- Increasing the occupational and regional mobility of labour
- Lengthening working careers
- Improving conditions for employment

The retirement of the baby boomer generation will alleviate the unemployment problem, but may adversely affect the supply of skilled labour. Labour supply may be reduced prematurely by the fact that during the economic crisis decisions were made at workplaces that moved employees outside the workforce. Even though the economy has recovered relatively quickly, the unwinding of the large-scale redundancies used during the economic crisis will satisfy labour requirements for some time forward. The large number of people on disability pension as well as the long-term unemployed also reduces the labour supply.

The employment rate of people over 55 years of age has already risen sharply in the last 20 years, due to changes in the pension system, among other things. In the courses of 2010 employee work satisfaction in the work itself and the workplace has grown, which, combined with better health among employees, has raised the employment rate of older workers. It is believed that this trend will continue.

Employment among young people is strongly affected by their educational level and the economic climate. A particular problem group are young people possessing merely basic education, who are neither employed nor unemployed, but who also are not studying or performing military service. Most of those susceptible to social exclusion are in the 15–19 year-old age group. The aim is to place every young person in education or work with the aid of outreach youth work, young people's workshop activity and other measures to improve manage-

ment of everyday life. In accordance with the young people's social guarantee service model, young people are offered measures at a sufficiently early stage. Around 10,000 youths are involved in various measures annually. The system is expected to reach around 100,000 young people by 2020.

The situation of young people who have completed tertiary education has traditionally been good. In 2009, however, unemployment among highly educated young people started to rise sharply, and still remains high, although is no longer rising. The highest unemployment is among graduates in the fields of business and social science, technology, humanistic subjects and the arts.

The education system has not been fully able to adjust to sectoral and vocational changes. Demand for labour is growing, particularly in the service sector, the social welfare and health care sectors, and in management and expert positions. The situation will intensify in the next few years, when certain sectors shift from an oversupply of labour to availability problems. The Government's goal is that in future the supply of education and training will correspond better with demand and that the transition from education into working life will be accelerated.

A proper knowledge base and cooperation in forecasting will facilitate the anticipation of structural changes and improve matching of labour demand and supply. Matching problems can also be reduced through use of employment services and an effective labour policy.

European structural funds programmes to promote competence, participation, creativity and innovation

The Ministry of Education and Culture specified its strategic key areas for the 2007 to 2013 period, which generated 11 national development programmes. The programmes are being funded for a total of EUR 151 million from the European Structural Fund. At the beginning 2011 altogether 179 projects had been set up in the programmes. Long-term development is linked to broader national activities.

The programmes aim to promote competence and participation and forward planning of educational needs, improve readiness for change throughout work careers, prevent social exclusion and strengthen young people's living conditions. The measures foster life-long learning, among other things. Learning environments open to everyone have been created in sparsely populated areas of the country.

The programmes also promote creativity and innovation. A new type of competitiveness is being born through entrepreneurship education, business operations in the creative industries and preventive wellbeing services in the third sector. To bolster the functioning of working life and productivity, innovation and expertise systems, environment and networks are being created. More effort is being placed on knowledge and utilisation of social and cultural innovations.

The Government will promote work-based immigration as well as occupational and regional mobility of labour. Improved mobility will also be pursued through housing policy as well as commensurate education and qualification systems.

In labour market solutions, a model of sectoral settlements is currently applied. Opportunities for company-level agreement have been expanded in new collective agreements, to allow productivity differences between sectors and businesses to be taken into consideration in wage formation. Pay rises have not, however, followed the rise in branch- or company-specific productivity. In 2007–2009, pay rose on an annual basis 1–2 percentage points faster than the euro area average. However, in 2010 unit labour costs decreased.

2.4 Increasing competition

Principal means

- Removing barriers restricting competition, particularly in the service sector
- Developing the resources and operating potential of the competition authorities
- Enhancing competitive tendering in public procurement

Finland's high price level points to a low level of competition, although it is also explained to some extent by sparse settlement and long distances. The food industry and the retail trade are centralised sectors, and for this reason the contractual practices and centralisation of the foodstuffs chain are continually monitored. Legislation still restricts service provision to some extent, for example with respect to shop opening hours and product range, even though regulations were relaxed in 2009. Municipal and regional decisions can also reduce competition by restricting availability of trading locations.

The Finnish Competition Authority will target its resources at the most harmful competition restrictions with respect to competition efficiency and the national economy. The intention is also to intervene more effectively than at present in the formation of oligopolistic market structures, if centralisation results in effects that substantially prevent competition.

The Government's objective is to increase competition by clarifying which services the public sector will itself provide in future and when services will be opened up to competition. Customer choice will also be increased in the public sector.

Significant savings will be pursued by introducing electronic services in public sector procurement. At the same time, the public sector will act as an example and pathfinder. The Government has submitted a legislative proposal on electronic auctions and dynamic procurement procedures. These will open up new opportunities for enhancing procurement efficiency.

3 National targets and measures to achieve them

3.1 Raising the employment rate to 78%

Principal means

- Directing education to meet demand for labour and structural reform needs
- Increasing the occupational and regional mobility of labour
- Lengthening working careers
- Improving conditions for employment
- Improving the quality of working life

Raising the employment rate of 20–64 year-olds to 78% by 2020 has been set as a national target. The target is a demanding one, because an employment rate of 20–64 year-olds as high as this was last achieved just before the previous recession, in 1990, when the economy was overheated. The corresponding employment rate in 2009 was 73.3%. The improvement in the use of labour resources implied by the target would mean a fall in the unemployment rate to around 5% in 2020. Raising the employment rate will be facilitated in future by the fact that annually around 10,000 more people will leave the working age population than will enter it.

Measures to raise the employment rate

The employment rate can be raised by promoting job creation throughout the country and by supporting labour mobility. In an open labour market, employment will be supported through business cooperation, wage subsidies and demand-oriented education. Structural unemployment will be reduced by offering work in the intermediate labour market to those who are difficult to employ. The aim will be to use remaining working capacity as effectively as possible.

The unemployed will be encouraged to participate in measures supporting employment and working capacity. Rehabilitation into working life will be enhanced by accelerating the assessment of rehabilitation needs and by targeting measures better. In this way, both the continuation in working life of those already in work and transition to working life after disability, illness or other similar cause will be supported.

The achievement of the employment target will be monitored separately for women and men. The large-scale participation of women in the labour market is being supported by providing good care services for children and the elderly, an effective parental leave system and flexible working time solutions. Women's career development and engagement with the labour market can be promoted by supporting men's use of parental leave.

In 2010 various statutes supporting the employment of young people came into force. These relate to education, trial work placements, early support in employment services, making the job alternation leave system a permanent one, improving restructuring protection and adult education.

New legislation on promoting the integration of immigrants is being used to help immigrants gain employment. Skills mapping will be available for those who are interested, which can then be used to provide appropriate training and employment measures. The integration measures will be assessed on an annual basis and it is important that besides education and training also work experience placements, job apprenticeships and preparatory education are made more readily available. Art and culture will be included in integration training for immigrants. The Participative Integration in Finland project endeavours to revamp integration training for immigrants so that language learning plays a significant part. Letters of intent will be used between local government and central government to enable swift employment among immigrants. Various organisations for immigrants and major Finnish NGOs play a key role in job creation for immigrants. Broadly based preparatory work on multicultural policy will be initiated in government in 2011.

Wellbeing at work and continuation in working life can be fostered by making use of research information on knowledge of life. The Wellbeing in Work Forum established by the Government will disseminate good practices in cooperation with researchers, experts and labour market organisations. To promote longer careers, measures will also be taken in cooperation the different administrative branches and social partners to facilitate more versatile use of exercise facilities and cultural services in working life. Exercise and culture vouchers are being used to encourage employers to support employees' exercise and cultural activities. This way it is also possible to improve gainful employment prospects for artists. In addition, the Action Programme on Art and Cultural Wellbeing 2010–2014 and the Workplace Exercise Project is being implemented.

Working life quality and longer work careers

The Finnish Funding Agency for Technology and Innovation (TEKES) operates on the principle of promoting developments in industry and services by means of technology and innovations. Tekes funds innovative research and development projects in working life through its workplace development funding (TYKE). The aim is to improve both productivity and the quality of life simultaneously.

Since 2009 TEKES has financed the development of working life by a total of about EUR 14 million, of which EUR 9 million is being used for development programmes and around EUR 5 million for research projects. The funds proved by TEKES cover half of overall costs and the rest is financed by the workplaces themselves. Businesses, public sector organisations and NGOs are eligible for development funding.

So far there have been a little over 150 development projects and just under 40 research projects. Most of the funding has gone to small and medium-sized enterprises and to projects in local government. In the development projects, the management and staff together have collaborated together in reorganising their operating modes. Joint collaboration has helped the staff to participate in improving the quality of working life.

3.2 Research and development expenditure at least 4%

Principal means

- Improving the effectiveness of research, development and innovation policy, also in the public sector
- Developing incentives for research, development and innovation
- Directing education and research to meet the needs of society and businesses
- Increasing competition particularly in the service sector

A national goal is to maintain the level of research and development funding at a minimum of 4% of GDP up to 2020. More selective allocation of financial support will focus on funds for forerunners, with main emphasis on experimentation and venture.

In terms of research and development activity, it is not only the level of investment that is essential, but the correct allocation of funds and above all its effectiveness, i.e. how research and development gives rise to new business and thereby supports economic growth and employment, increases the wellbeing of citizens, and facilitates, for example, the reduction of emissions.

Already in 2005, Finland set a national target of raising the proportion of research and development funding to 4% of GDP. Besides Sweden, Finland is the only EU country which to date has exceeded the 3% target set in the EU's

Lisbon Strategy. Central government research and development funding is allocated mainly to universities, research institutes, the Academy of Finland and the Finnish Funding Agency for Technology and Innovation (TEKES). Appropriations allocated in 2010 totalled EUR 1.85 billion.

Measures to improve the effectiveness of research and development activity

Competition provides businesses and other actors with their main incentive to invest in research, product development and innovations. The Government ensures competition efficiency and promotes research and development. In research, development and innovation activity, greater emphasis will be given to commercialising and internationalising the results of research and development.

Internationally competitive research environments will attract high-quality researchers. Research infrastructures will strengthen the quality of research and promote internationalisation. Researcher career paths based on competition and incentivisation will be developed for universities. Cooperation between universities, research institutes and businesses will be increased.

3.3 Climate and energy targets under the EU effort-sharing agreement

Principal means outside the emissions trading sector

- Developing economic steering, regulation, guidance and incentives
- Utilising research, development and innovation policy

The EU's climate targets have been incorporated into EU legislation via the climate and energy package. With the existing emissions reduction obligations, the emissions trading sector does not require new means to achieve the emissions reduction targets.

The purpose of the climate targets in the Europe 2020 Strategy is to transform the existing climate challenges into strengths by boosting materials and energy efficiency and by curbing greenhouse gas emissions, which accelerate climate change. No new national targets have been set in connection with the Europe 2020 Strategy. The EU is, however, pondering the possibility of tightening the emissions reduction target, which might also have an impact on the climate targets of the Europe 2020 Strategy.

According to the effort-sharing decision included in the EU's climate and energy package, by 2020 Finland must reduce greenhouse gas emissions in sectors that do not belong to emissions trade, such as from housing, transport and agriculture by 16% and raise the proportion of renewable energy to 38%. In improving energy efficiency, the aim is to achieve the 20% efficiency target

set in the EU. In the emissions trading sector, emissions will be reduced by 21% compared with the 2005 level.

The National Climate and Energy Strategy approved in autumn 2008 outlined climate and energy policy up to 2020. A Foresight Report on Climate and Energy Policy, issued by the Government at the end of 2009, supplemented the work of the strategy from 2020 onwards, setting long-term targets for, among other things, the reduction of greenhouse gas emissions and energy efficiency of buildings.

In its Climate and Energy Strategy, the Government also set Finland's energy efficiency target. In 2007, total consumption of primary energy was 411 terawatt-hours. According to the strategy, in 2020 it is expected to be 479 terawatt-hours, with the trend target figure being 430 terawatt-hours. The savings target is therefore 49 terawatt-hours, just over 10% relative to the baseline scenario, i.e. the trend without new efficiency measures.

According to the foresight report, the objective is to cut emissions by at least 80% from the 1990 level by 2050 as part of an international effort. In improving the use of energy in buildings, the goal is for consumption to be at least 30% lower in 2030 and at least 60% lower in 2050 than the present level. Energy efficiency regulations for new buildings will be tightened from the beginning of 2012 by around 20%.

A mid-term review of the National Climate and Energy Strategy will be opportune by the end of 2011.

Measures to achieve the climate targets

The Government has adopted a number of laws relating to the implementation of the energy and climate strategy and a resolution on the promotion of energy efficiency. These aim to secure a reduction in energy end-use and to support introduction of forms of heating that utilise renewable energy, such as efficient heat pumps and pellet heating. The objective is to create conditions also for building-specific utilisation of solar and wind energy. Resource efficiency and the development of low-carbon products are important goals.

In the short term, a further goal is to boost in particular the use of wood and waste biomass in energy production. Over the longer term, it will also be necessary to develop new, cleaner bio-based energy solutions, such as bio-based hydrogen production.

In summer 2010, the Government made resolutions on the granting of permits for the construction of two new nuclear power units. Parliament approved these decisions. One key justification for the decisions was that these projects will help Finland achieve the climate and energy strategy's emission reduction targets. The new nuclear power units would start generating electricity in the early 2020s.

A statutory feed-in tariff proposed by the Government is expected to increase use of wind power significantly. Additional wind power construction will also be promoted through planning and aid to accelerate planning permission.

The goal of the new Waste Act proposed by the Government is to reduce the amount and adverse effects of waste and to promote sustainable use of natural resources at the beginning of 2011. The waste tax is extended to cover all waste that is delivered to landfill sites but which from a technical and environmental perspective could be utilised. The waste tax was gradually raised so that the first increase is in 2011 and then in 2013.

Legislative provisions on a package of obligations concerning renewable energy and energy taxation based on environmental aspects came into force at the beginning of 2011.

In planning the use of land areas, the impact of solutions on the climate will also be taken into account. The goal is to avoid urban sprawl and to increase the building stock in population centres.

A Government resolution on sustainable choices in public procurement requires that organisations introduce an environmental system or programme and add an ecological dimension to their key purchases. The objective is to promote energy and material efficiency, new solutions and environmental innovations. At least 30% of electricity acquired in the central government administration in 2010, and at least 60% in 2015, must be produced from renewable energy sources.

A more extensive reform of the Environmental Protection Act will be initiated during 2011. The goal is to promote sustainable use of natural resources and to combat climate change. Material efficiency included in the resource-efficiency target can be promoted through a material-efficiency programme. The purpose of the programme is to evaluate the efficiency potential in natural resources productivity, establish targets for achieving this and device gauges for describing natural resources productivity.

3.4 Raising the proportion of people having completed tertiary education to 42% and reducing the proportion of early school leavers to 8%

Principal means

- Directing education and research to meet demand for labour
- Raising the skills level
- Improving the effectiveness of the education system
- Reforming the adult education system

A national target set for 2020 is that the proportion of the 30–34 year-olds having completed tertiary education be raised to 42% and the proportion of early school leavers among 18–24 year-olds be at most 8%.

The target relating to those having completed tertiary education is close to the long-term realised level in Finland. In Finland, those who have a university of applied sciences or traditional university qualification are defined as having completed tertiary education. The Europe 2020 Strategy's definition of those having completed tertiary education also includes those who have a college-level qualification, which in Finland has been removed from the qualification system. Using the Commission's broad definition, the proportion of those having completed tertiary education is currently 45.7% in Finland. In the next few years, when the 30–34 year-old age group no longer includes those who have a college-level qualification, the number of those having completed tertiary education in Finland will fall to around the 37–38% level, but will rise to 42% by 2020.

In the Europe 2020 Strategy, early school leavers are defined as those 18–24 year-olds who have no qualification after basic education and those who have not been in education during the last four weeks. Finland has no target value set in the way presented by the Commission for early school leavers. The same phenomenon is described by the target included in the Education and Research Development Plan, which ensures a post-basic education qualification for 95% of the population, and which in turn is estimated to mean a level of early school leavers of around 8%. According to Eurostat, the proportion of 18–24 year-olds in Finland who have no qualification after basic education is 9.8%. Finland is likely to record a lower figure than the Commission's 10% target value in the future.

Measures to achieve the education target

A sufficient supply of skilled labour is important in terms of future economic growth. The Government's aim is to ensure a place of study for every young person leaving basic education.

Finland has already invested for decades in a high level of education and skills for its population. The wide range of training available has promoted equality and social mobility, and the education level of parents does not determine children's level of education to the same extent as in some European countries. By international standards, however, study times in Finland are long.

Achieving the target for those completing tertiary education will not require an increase in study places. By 2020 the age group applying to universities will decline and there will be sufficient places for most students. Education systems will be enhanced through reform of tertiary education student selection and development of planning, counselling and monitoring systems. Transfer from one education level to another will be accelerated, discontinuation of studies reduced and study times shortened.

According to the Government's Research and Innovation Council, because the age groups are shrinking and by encouraging graduation within the normal time parameters and raising pass rates to 75%, it would be possible to reduce the intake of students into tertiary education by an imputed 10,000 places. This would release funds estimated at EUR 150 – 200 million. These funds should be allocated to more effective studies, strengthening the focus areas and profiles of universities, and ensuring favourable conditions for scientific research, researcher career paths and the research environment.

The number of early school leavers will be reduced by ensuring that all young people finishing basic education continue in secondary education and complete their education. Study counselling and training of study counsellors will be enhanced in cooperation with schools and social welfare and health care actors.

3.5 Reducing the number of people living at risk of poverty and social exclusion

Principal means

- Raising the employment rate
- Raising the skills level
- Promoting working capacity
- Improving conditions for employment
- Developing public services

A national goal is improving the position of those on low incomes and those at risk of poverty and social exclusion, and particularly their position in the labour market.

Those on low incomes account for 14% of the entire population, those living at risk of poverty and social exclusion 17% and the under-unemployed 6%. These groups overlap. In Finland, indicators of material deprivation are not of primary importance in terms of the comparison of different population groups and the targeting of measures, because an extensive service system safeguards free or reasonably priced basic services for all.

Those most at risk of poverty and social exclusion are the elderly female pensioners, the unemployed, single parents, immigrants, the under-employed and women caring for children at home for a protracted period of time. The poverty risk is low for those who are employed.

Around 330,000 people live in the households of the long-term unemployed. In 2005–2009, long-term unemployment fell substantially, but it began to rise again in 2010. Compared with 2009, long-term unemployment rose by 39% and the situation is expected to deteriorate further. Many of the long-term unemployed are in the 55–64 years age group. Due to retirement, this group will not

grow; instead, the greatest increase in unemployment will be among 45–54 year-olds. Just over 40% of the long-term unemployed have only basic education. During the recession, the proportions of those having completed upper secondary and tertiary education have increased, however.

Taking into consideration all of the criteria agreed in the European Council, namely relative risk of poverty, material deprivation and households weakly engaged with the labour market, a total of around 900,000 people are affected by risk of poverty and social exclusion in Finland.

The quantitative target of the Europe 2020 Strategy will be achieved in Finland if the number of people at risk of poverty and social exclusion can be reduced by around 100,000 and the labour market position of households improved in terms of around 50,000 people.

Measures to combat risk of poverty and social exclusion

Public social welfare and health care services are highly significant for low-income households, because they improve conditions to participate in working life. Measures will be directed at reducing income poverty, improving employment, supporting remaining working capacity, and aiding young people and young families.

Legislation on social welfare and health care services is currently being reformed with the intention of safeguarding the effectiveness of the service system. A particular effort will be made to support low-income and needy citizens.

The narrowing of differences in health and wellbeing is a long-term endeavour. Work incapacity relating to risk of hardship and social exclusion and to mental health problems affects entry to and engagement with the labour market as well as the discontinuation of working careers. These problems will be addressed with activation measures and by investing in pre-emptive measures also with respect to those who are outside working life. Between 15,000 and 20,000 people who are mainly long-term unemployed annually take part in rehabilitative labour measures.

In the prevention of poverty, special attention is being placed on young people who have not completed their basic education and on young people who are not intending to study or work. They are being given guidance at school, brought within youth outreach work as specified in legislative provisions on young people and through a multidisciplinary cooperation network. From the beginning of 2011 anyone aged under 25 who is without vocational qualifications and who is living on income support may have their support cut by 20% if they refuse without good reason to study or discontinued their studies so that they are not eligible for unemployment benefit. This is to encourage young people in difficult circumstances to find an education, bring a sense of empowerment and integrate into society. Any cut made in the income support shall not jeopardise the person's immediate subsistence level though.

The basic deduction in municipal income tax was raised at the beginning of 2011. At the beginning of March 2011, a guaranteed pension improving basic protection came into force and basic and minimum security benefits were index linked. The guaranteed pension will influence the income of those who receive the lowest pensions, particularly men who are unfit for work and very elderly women. An estimated 100,000 to 120,000 people are eligible for the guaranteed pension. The index-linking of basic and minimum security benefits will affect minimum daily allowances, parents' allowance, rehabilitation allowance, child allowances and support for home care and private care. The income of those on the lowest incomes and families with children in particular will improve, which will support the Government's goal of narrowing income differences.

The impact of the above-mentioned measures already begun to be evident in 2010. A legislative proposal on the periodic assessment of the level of basic security came into force in December 2010. An examination of the mutual levels of minimum, basic and income security as well as an assessment of the adjustment for inflation of minimum and basic security is a statutory requirement once the law enters into force. This is done once every four years. The first one was completed in March 2011.

Reducing long-term homelessness

The Government launched an action plan designed to combat homelessness in 2008 with a view to slashing homelessness in half by the end of 2011. There are plans to extend the action plan so as to abolish long-term homelessness altogether.

Overall funds for the action plan total EUR 200 million. The Government-owned Housing Finance and Development Centre of Finland (ARA) is financing the bulk of the sum through investment and subsidised loans. To implement the action plan, agreements have been contracted between the State and the 10 largest cities in Finland, whereby the cities have made a binding agreement to construct the required housing for rented accommodation and accommodation that includes support services for special groups. This means a total of 1,250 flats or other forms of housing. The target has been exceeded, as there will be 1,697 flats or other forms of housing. The subsidised funding has also made it possible to employ about 200 new staff members to help people who are offered a place to live.

A study carried out by the Tampere University of Technology indicates that enhanced housing arrangements that include support services brought savings of about EUR 211,000 at the annual level in the overall costs, when comparisons were made with the use of health care and social welfare services of 15 people who had before the enhanced housing arrangements been homeless. The average saving per inhabitant was EUR 14,000 a year. The action plan shows clear signs that rented accommodation that is permanent and offers support services paves the way for social rehabilitation and improves chances of finding employment.



MINISTRY OF FINANCE
Snellmaninkatu 1 A
PO BOX 28, 00023 Government
Tel. +358 9 160 01
Fax 09 160 33123
www.financeministry.fi

14c/2011
Ministry of Finance publications
April 2011

ISSN 1459-3394 (print)
ISBN 978-952-251-169-3 (print)
ISSN 1797-9714 (pdf)
ISBN 978-952-251-169-0 (pdf)

MINISTRY OF FINANCE
PUBLICATIONS

Budget issues

Public management

Local government

Governance and
accountability

Financial markets

Economic outlook
and economic policy

Office for the Government
as Employer

Tax issues